

Minutes of a meeting of the AUDIT AND GOVERNANCE COMMITTEE on Monday 12 March 2018

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Committee members:

Councillor Fry (Chair)

Councillor Gant

Councillor Ladbrooke

Councillor Munkonge (Vice-Chair)

Councillor Paule

Councillor Price (for Councillor Taylor)

Officers:

Nigel Kennedy, Head of Financial Services

Anita Bradley, Monitoring Officer

Catherine Phythian, Committee Services Officer

Helen Bishop, Head of Business Improvement

Rocco Labellarte, Chief Technology and Information Officer

Also present:

Gurpreet Dulay, Manager, BDO Internal audit, BDO Internal Audit provider

Greg Rubins, Partner, BDO internal audit, BDO Internal Audit provider

David Guest, Ernst & Young external auditor, Ernst & Young

Apologies:

Councillor(s) Taylor sent apologies.

41. Declarations of Interest

There were no declarations of interest.

42. Internal Audit: Follow Up of Recommendations to March 2018

The Chair took this item first.

The Committee considered the report of the internal auditor BDO setting out progress made on those recommendations raised by Internal Audit which are due for implementation.

Greg Rubins, internal auditor, reported that, of the 25 recommendations due for follow up, 18 were now complete. Of the 9 incomplete recommendations it was expected that Cyber Crime (Information Security Policy) and Cyber Crime (General Data Protection Regulation) and Accounts Payable / Barclaycard were on target for completion.

ICT Service Desk

The Head of Business Improvement and the newly appointed Chief Technology and Information Officer were present to brief the Committee on the progress of the

restructure of the ICT Service Desk. The restructure was now largely complete and should be signed off by the end of April although recruitment to the vacant posts would take longer. The Committee learnt that the retention of experienced IT staff was a recognised problem for local authorities. To address this challenge the current restructure had sought to promote alternative benefits such as formal training, mentoring, providing a suitable life/work balance and placing staff in tailored posts that matched their personal aspirations.

Freedom of Information

The Monitoring Officer advised the Committee that April 2018 was not a realistic target due date. She said that delivery of this recommendation required significant work and was, in part, dependent on the availability of IT support. She undertook to provide a written update on this recommendation.

The Committee noted the report and the progress against individual recommendations.

43. Audit Planning Report for year ending 31 March 2018 - Ernst and Young

The Committee considered the report of the external auditor Ernst & Young setting out an overview of the work that is to be completed during the 2017/18 audit.

Paul King, auditor, and the Head of Financial Services reported that the change in statutory deadlines for Annual Accounts represented a significant logistical challenge for the Council and its auditors. Although this had been trialled successfully for the last couple of years it was nevertheless complicated by the Group structure of Council companies all of which would need to provide audited accounts on the same compressed timescale.

The Committee noted the report.

44. Internal Audit progress reports: Quarterly 2017/18

The Committee considered the report of the internal auditor BDO setting out progress made against the internal audit plan.

Gurpreet Dulay, internal auditor, reported that the audit plan was on track and that he expected all reports would be completed by July 2018. The outstanding reports reflected the deferral of the effective trading date for the Direct Services companies.

The Committee noted progress against the audit plan.

45. Internal Audit - final audit reports - Council companies

The Committee considered the report of the internal auditor BDO setting out the findings of an audit to provide assurance that the governance arrangements put in

place increase the likelihood that the Council will obtain value for money from its investment in its wholly-owned companies Oxford City Housing Ltd, Oxford Direct Services Trading Ltd, and Oxford Direct Services Ltd.

Gurpreet Dulay, internal auditor, presented the report and explained that the audit review had looked at, but was not limited to, the following areas:

- The robustness of the business case supporting the set-up of the companies
- The governance arrangements for the companies
- The capacity and capability of the company boards
- The reporting arrangements to allow the Council, as shareholder, to monitor performance of the companies
- The extent to which the companies had sought external advice with technical issues such as tax

He said that the audit review had identified a total of 12 risks; 8 of which were categorised as medium and 4 which were categorised as low as detailed in the report.

The Committee discussed each risk and the associated recommendations in turn.

1A / 1B / 1C – the business case and ongoing business plans of both companies do not demonstrate that the Council’s investment will deliver value for money to the Council (medium risk)

The Committee observed that as the Council’s Medium Term Financial Plan was based on the Direct Services companies delivering a cost reduction it was important to ensure that this saving was taken into account. In addition the cost base in the Direct Services Business Plan did not include all of the additional costs associated with operating as a company. Some of these, such as corporation tax were subject to external pressures and variations which could have significant implications for the Business Plan.

2B – the Council has not sought appropriate external advice on company structures, TUPE requirements or tax legislation (low risk)

The Committee emphasised the need to ensure that a system was in place to monitor the level of compliance associated with Teckal status and for that information to be reported to the shareholder.

3A / 3B – there is no contract in place setting out how the Council will supply support services to the companies or clear processes for pricing, monitoring and invoicing for staff time and use of the Council’s assets such as IT, property and equipment (low and medium risk)

The Committee were satisfied with the responses to the proposed recommendations.

4A – the reporting and scrutiny arrangements between the Council and the two companies are insufficient (e.g. reporting against business plan) (medium risk)

The Committee acknowledged the concerns raised about the arrangements in place for the companies to report financial and performance information to the shareholder. The Head of Financial Services assured the Committee that shareholder meetings would be

held on a quarterly basis and that the document templates for formal reporting were under development.

5A / 5B – the financial relationship between the Council and both companies – i.e. in terms of loans made to the companies against State Aid considerations and dividends expected from both companies – are not clearly recorded (medium risk)

6A – there are inadequate arrangements in place to track data sharing between the Council and both companies (medium risk)

The Committee were satisfied with the response to the proposed recommendation.

7A / 7B – Company Boards do not include appropriately qualified people, without conflicts of interest, who are appropriately insured and aware of their responsibilities as Directors (low risk)

The Committee noted that the appointment of Non-Executive Directors (NED) to the companies was a matter reserved to the shareholder which should be reviewed at least annually. There was no legal requirement to appoint a NED but it was generally considered to best practice. The Direct Services companies were in the process of appointing both a Financial Director and a Commercial Director; this approach could be replicated by the Housing Group.

The Committee concluded that in view of the growth aspirations of the Housing Group and the Direct Services companies it was to the Council's benefit to progress the appointment of Non Executive Directors to the boards of those companies.

The Committee also felt that there should be some attempt to quantify the lost opportunity costs to the Council for staff working on company business.

The Committee noted the report, the individual recommendations and the responses provided.

46. Oxford City Council Internal Audit Plan 2018-19 and 2018-21

The Committee considered the report of the internal auditor BDO setting out the draft internal audit plan and audit charter for operational audits for the period 2018-19 and strategic audits for the period 2018-21.

Gurpreet Dulay, internal auditor, said that the proposed plan provided good coverage of a number of interesting topics. He assured the Committee that the proposed plan included scope to look at the Council's subsidiaries, in particular the Direct Services companies.

The Committee noted that the audit of the Fusion Partnership arrangements was scheduled for 2020-21 and suggested that it would be desirable to accelerate this review. The Head of Financial Services agreed to review the draft plan with the internal auditor.

The Committee also suggested that the Homelessness review should be expanded to include rough sleeping and that there needed to be clear differentiation between homelessness and homelessness prevention.

Finally the Committee suggested street scene and graffiti might be included as an additional topic.

The Committee noted the report.

47. Risk Management Quarterly Reporting as at 31 December 2017.

The Committee considered the report of the Head of Financial Services giving an update on both corporate and service risks as at 31 December 2017.

The Committee noted that two new service area risks had been added:

- Law & Governance – relating to the new General Data Protection Regulations which comes into effect on 25 May 2018.
- Community Services – relating to legal action against the Council in regards to sex establishment licence fees.

The Committee noted the report.

48. Minutes of the previous meeting

The Committee agreed to approve the minutes of the meeting held on 11 January 2018 as a true and accurate record subject to the following amendment:

- Minute 31 – final bullet point should read
The loss of the Housing Benefit subsidy was covered through contingency funds

49. Dates and times of meetings

The Committee noted the dates and times of future meetings.

The meeting started at 6.00 pm and ended at 7.45 pm

Chair

Date: Wednesday 25 July 2018